

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7652

BILL NUMBER: HB 1840

NOTE PREPARED: Jan 25, 2005

BILL AMENDED:

SUBJECT: School tuition organization tax credit.

FIRST AUTHOR: Rep. Noe

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides an Adjusted Gross Income Tax Credit to individuals and married couples filing joint returns for charitable contributions to organizations that provide tuition scholarships for children attending nonpublic schools.

Effective Date: January 1, 2006.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. The DOR's current level of resources should be sufficient to implement this change.

Public School Funding: The movement of students from public to nonpublic schools could result in a saving to the state which would partially offset the cost the tax credit. The amount per student that could potentially be saved is indeterminable as a school funding formula beyond 2005 has not been established. Based on the current funding scheme, the per pupil saving could be about \$5,260. However, the state would accrue no cost savings from students who move from a minimum guarantee school district to a nonpublic school.

Annual scholarship totals funded under the Arizona Tuition Organization Tax Credit are reported in the table below. The tax credit was enacted in 1997. The 1998 totals were reportedly abnormally low due to a court challenge of the tax credit which was ultimately resolved in January 1999 by the Arizona Supreme Court. If 1,000 scholarships were used by students moving from public to nonpublic schools, the annual offset based on current per pupil funding would total about \$5.3 M. However, this assumes that none of the scholarship students move from a minimum guarantee school district.

Year	Scholarships Funded from Contributions
1998	326
1999	3,727
2000	15,005
2001	17,405
2002	16,156
2003	20,153

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who make contributions to school tuition organizations that, in turn, use the money to provide scholarships to children who attend qualified nonpublic schools. This tax credit is similar to a credit enacted in Arizona in 1997. Assuming the response of Indiana taxpayers to this credit is similar to that of Arizona taxpayers, annual credits claimed could potentially follow the pattern reported in the table below. However, the revenue loss could potentially be less than the annual credit totals, to extent that taxpayers claiming the credit have insufficient tax liabilities to use the credits.

Fiscal Year	Credit Amount
2007	\$16.5 M
2008	\$21.2 M
2009	\$29.8 M
2010	\$31.3 M
2011	\$35.3 M

The totals in the table are imputed based on annual credit totals claimed by Arizona taxpayers from 1999 to 2002, adjusted to account for population differences between the two states. The 1998 totals are not utilized for these estimates since they were reportedly abnormally low due to a court challenge of the tax credit that was ongoing during 1998. This challenge was ultimately resolved in January 1999 when the Arizona Supreme Court upheld the tax credit law. Subsequently, the U. S. Supreme Court refused to hear a challenge to the tax credit law. Credits claimed in 1998 totaled only \$1.8 M. *Census 2000* results indicate that the adult population in Indiana is about 20% larger than in Arizona; and the median household income in the two states is very similar (\$40,558 in Arizona and \$41,567 in Indiana). Thus, it is assumed that contribution and tax credit totals will be roughly 20% higher in Indiana, provided taxpayer response is similar.

Background: The bill creates a nonrefundable AGI Tax credit for individual taxpayers who contribute money to school tuition organizations which will fund scholarships to qualified nonpublic schools (preschool through secondary school). The credit is equal to the amount contributed to a tuition organization by the taxpayer up to a limit of \$500 for a single return, and \$625 for a joint return. The bill does not provide for unused credits to be carried back or carried forward by the taxpayer. To qualify for the credit, contributions must be made to a "school tuition organization" defined under the bill to be a charitable organization in Indiana that meets

the following requirements:

- (1) Is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.
- (2) Allocates at least 90% of its annual revenue for scholarships to pay qualified nonpublic school expenses of students who attend qualified nonpublic schools.
- (3) Provides scholarships for more than one nonpublic school.
- (4) Files an annual financial report with the Department of Education.
- (5) For school years that begin before July 1, 2010, gives preference to children of low income families in awarding scholarships and tuition grants.

Contributions may be used only to pay nonpublic school expenses relating to tuition, academic instruction, or transportation. In addition, creditable contribution can't directly benefit a dependent of the taxpayer making the contribution. Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

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